

City Council Vision and Plan of Action to Reduce the Use of Debt Funding

Background

During the January 26, 2015 City Council Budget Retreat, through a collaborative exercise, the Council assigned a very high priority to reducing debt funding. This item was later assigned to the Administrative Services Committee to develop a plan of action. The Committee spent the last year deliberating on this issue. The result was a proposal to revise the current City Council Financial Policy. The proposed policy revisions were presented to Council during a special meeting of the City Council on February 22, 2016. After that presentation, it became apparent that there was some reluctance by the City Council to make changes to the Financial Policy.

The Committee feels strongly that if any sustainable change is to be made in this area it will require a broad consensus of the Council. Knowing that all of the proposed action items could be implemented under the framework of the current Financial Policy, the Committee decided to propose that the City Council adopt a vision and high level plan of action. It is our hope that this will establish a clear vision for the City staff regarding the City Council's desire to reduce the use of debt funding and will provide general direction on how Council wishes to begin this long-term process.

Vision

Maximize the use of the City's modest resources by reducing the use of debt funding and its associated interest costs.

Plan of Action

(1) Phase 1 - Reduce interest expense associated with debt funding

- (a) Gradually reduce the terms (years to pay back) on new debt issues in order to lower interest rates, pay off debt faster, and reduce the overall interest expense
- (b) Move annual recurring capital items currently being funded by debt to the Annual Operating Budget as cash resources become available. Following are some examples of potential projects:
 - i) Annual recurring purchases of large quantities of low dollar items (ex: library books)
 - ii) Annual recurring investment in city infrastructure (ex: \$15M per year for streets and alleys)
- (c) Review with Council each year tax supported debt as a % of the assessed value of the tax base. This ratio should trend downward as the use of debt funding is reduced over time.

(2) Phase 2 - Set aside reserves (savings) as cash resources become available in order to fund future capital items

As revenue growth allows, establish reserves to fund future capital items. This will smooth out the impact on the Annual Operating Budget from one year to the next and will ensure that cash funds are available when they are needed. For example:

- (a) Replacement of capital items with short-term useful lives (ex: Firewheel golf carts, equipment)

(3) Maintain budget flexibility through changing economic conditions

- (a) During years of high economic growth, additional recurring revenues may be used to increase replacement and general reserves (savings), pay down debt, enhance services, or provide taxpayer relief.
- (b) During years of low or negative economic growth, ongoing revenue shortfalls may be addressed by tightening cost controls on operating expenses, deferring capital purchases, reducing services, and utilizing reserves.